OLR Bill Analysis

sSB 1055

AN ACT CONCERNING THE ORDER OF TAX CREDITS FOR THE INSURANCE PREMIUMS TAX, A CONSOLIDATION OF TAX CREDITS FOR LAND DONATIONS, AMENDMENTS TO THE ENTERTAINMENT INDUSTRY INFRASTRUCTURE AND THE JOB EXPANSION TAX CREDITS, A STUDY OF THE INCOME TAX AND THE REPEAL OF CERTAIN TAX CREDITS.

SUMMARY:

This bill makes changes to several business tax credit programs. It:

1. establishes the order in which insurers must claim multiple tax credits in a calendar year;

2. extends, from 15 to 25 years, the maximum period for carrying forward the credit for donating land for educational purposes;

3. allows taxpayers to whom film infrastructure tax credits were assigned to carry them forward for up to three years;

4. allows the economic and community development commissioner to limit the period for claiming the three-year job expansion tax credits and imposes an aggregate credit cap for the years they may be claimed;

5. requires the Department of Revenue Services (DRS) commissioner to study the state's income tax structure and how its rates and credits affect different taxpayers; and

6. repeals tax credits for (a) hiring Temporary Family Assistance (TFA) recipients, (b) making research and development grants to Connecticut colleges and universities, and (c) hiring workers displaced by electrical industry and other business restructurings.

The bill also makes conforming technical changes.

EFFECTIVE DATE: Various, see below.

§ 1 — ORDER FOR CLAIMING INSURANCE PREMIUM TAX CREDITS

The bill establishes the order in which insurers must claim multiple credits in a calendar year. The order depends on whether the insurer can carry a credit backwards or forwards. The insurer must:

1. first apply the credits that it can carry backward to a preceding year, in the order in which they expire or, if more than one credit expires at the same time, in the order that gives the insurer the maximum benefit;

2. then apply credits it can neither carry backward or forward; and

3. finally, apply the credits it can carry forward, in the order in which they expire and, if more than one credit expires at the same time, in the order that gives it the maximum benefit.

A similar order applies under existing law to businesses eligible to claim more than one corporation business tax credit (CGS § 12-217aa).

The bill specifies that insurers cannot claim the insurance premium credit more than once.

EFFECTIVE DATE: Upon passage and applicable to calendar years beginning on and after January 1, 2013.

§§ 2-3 — TAX CREDITS FOR DONATING LAND FOR EDUCATIONAL USE

The bill extends, from 15 to 25 years, the maximum time during which taxpayers may carry forward the corporation business tax credit for donating land for educational uses. The 25-year carry forward period applies to credits for donations made in any tax year starting on or after January 1, 2013. The 15-year carry forward period continues to apply to credits for donations made during prior tax years.

By law, the credit equals 50% of the donated land's market value at its highest and best use or the value of the discounted sales price of the land or the interest in the land. Taxpayers qualify for the credit if they donate the land or sell the land or interests in it to any town, city, borough, school district, or regional school district that will use it for schools or related facilities.

The law already authorizes a 50% credit for donating land to be permanently preserved as open space or used as a public water supply source. The bill consolidates the statutes authorizing this credit and the one for donating land for educational uses.

EFFECTIVE DATE: July 1, 2013 and applicable to income years beginning on and after January 1, 2013.

§ 4 — CARRY FORWARD FOR FILM INFRASTRUCTURE INVESTMENT TAX CREDIT

The bill allows more taxpayers to claim film infrastructure tax credits over four years (i.e., carry forward). By law, parties investing in film infrastructure projects qualify for the credits, which they can claim over four years or assign (i.e., sell or transfer) to other taxpayers (i.e., assignees), who may claim them only in the tax year when the investment was made. Consequently, parties that choose to assign the credits must assign them to a taxpayer who can claim in the investment year.

The bill gives assignees the same ability to transfer credits as the original credit holders. It allows them to claim the credits during the investment year or carry them forward for up to the next three succeeding years.

EFFECTIVE DATE: Upon passage

§ 5 — JOB EXPANSION TAX (JET) CREDIT

The bill allows the Department of Economic and Community Development (DECD) commissioner to reduce the time during which businesses may claim the JET credit for hiring certain types of employees from three years to one year.

Under current law, businesses qualify for a three-year credit based on employee criteria. The credit equals $500 per month for each new employee who lives in Connecticut (i.e., new employee) or $900 per month if the employee either:

1. is receiving (a) unemployment compensation benefits or has not had a full-time job since exhausting them, (b) receiving vocational rehabilitation services from the Department of Rehabilitation Services, (c) receiving employment services from the Department of Mental Health and Addiction Services, or (d) participating in employment opportunities and day services operated or funded by the Department of Developmental Services (i.e., qualifying employee) or

2. is a current armed forces member or one who was honorably discharged or released under honorable conditions from active service in the armed forces (i.e., veteran employee).

Businesses hiring such employees must annually apply to the DECD commissioner for the credit. Beginning January 1, 2014, the bill requires her to base her decision on whether to approve second- or third-year credits for new employees on whether doing so is consistent with the state's economic development priorities. She must continue basing her decision on whether to approve second- or third-year credits for qualifying and veteran employees on the current eligibility criteria.

The bill changes the cap on the JET credits. Current law imposes a $20 million cap on these credits and those issued under two earlier job creation programs, which JET replaced after a transition period. The JET program was enacted in 2011 and sunsets on December 31, 2013. Although the commissioner's authority to grant credits ends on that date, businesses awarded credits in 2012 and 2013 may still claim them after 2013 for the full three years.

The bill changes the cap from $20 million per year to $40 million over the program's duration, including the full three-year period during which businesses can claim JET credits. Because JET is a three-year credit, the commissioner must apply the cap to the year she awards them and the subsequent two years during which businesses may claim them, including 2014 and 2015.

EFFECTIVE DATE: July 1, 2013

§ 6 — INCOME TAX STUDY

The bill requires the DRS commissioner to study the state's personal income tax structure and how its rates and credits affect taxpayers grouped according to their federal tax filing status.

The study must:

1. analyze the taxes and credits imposed on each group of taxpayers at the same or equivalent income levels, based on adjusted gross income, and whether taxes and credits are the same or equivalent;
2. compare the effect of basing the income tax on federal adjusted gross income versus federal net income; and
3. consider how the tax rates and credits could be restructured to require all taxpayers to pay equivalent amounts while maintaining current revenue levels.

The commissioner must report his findings by January 15, 2014, to the Finance, Revenue and Bonding Committee, along with any recommendations for legislative changes to ensure an equitable income tax structure.

EFFECTIVE DATE: Upon passage

§§ 7-8 — CONFORMING TECHNICAL CHANGES

The bill makes conforming technical changes to laws referencing tax credit programs it repeals.

EFFECTIVE DATE: July 1, 2013

§ 9 — REPEALED TAX CREDIT PROGRAMS

The bill repeals:

1. the $125 per month tax credit for employers hiring TFA recipients for at least 30 hours per week (CGS § 12-217y),

2. the 25% tax credit for research and development grants businesses make to colleges and universities in Connecticut exceeding the three-year average of prior grants (CGS § 12-217*l*),

3. the $1,500 per worker credit available to electric suppliers who hire workers displaced by electrical industry restructuring (CGS § 12-217bb), and

4. the $1,500 credit for hiring workers whose (a) jobs were eliminated because of business restructuring in which at least 10 employees were terminated and (b) new salary is at least 75% of their previous wages or salaries (CGS § 12-217hh).

Under current law, all of these credits apply against the corporation business income tax. The credit for hiring workers displaced by business restricting also applies to the insurance premium and utility company taxes.

EFFECTIVE DATE: July 1, 2013

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 51 Nay 0 (04/04/2013)